

# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO

DIVISION OF FINANCIAL MANAGEMENT

APRIL 2008 VOLUME XXX NO. 10

Economic anxiety and turmoil have reached very high levels as the global housing boom has given way to a global credit crunch. Mounting inflation pressures, especially in basic commodities such as energy and food, are also making both economic policymakers and the general public quite nervous. The continuing weakening of the U.S. dollar is serving to compound these problems for American consumers. Talk of recession is a daily topic on the evening news.

Idaho is not immune to these problems, and we even have a few of our own—the Snake River water issue and Micron's recent layoffs come immediately to mind. It's easy to be overwhelmed by the almost daily barrage of negative economic news. Nonetheless, it is also important to keep all this varied information in context. It's a good time to take stock of where we stand.

One of the most widely reported economic indicators is the unemployment rate. Idaho's rate has been below the nation's for the past 6½ years and as of March 2008 stood at 3.0%, or 2.1 percentage points below the national rate. Only South Dakota (2.5%) and Nebraska (2.9%) had lower unemployment rates in March. For all of 2007 Idaho's

unemployment rate averaged 2.7% (tied with Utah), second only to Hawaii's 2.6%.

Idaho's nonfarm employment growth is another important indicator of the economy, and here the results are a bit more middle of the road. In February Idaho's year-over-year growth was just 0.2%. This is weaker than all of our neighboring states with the exception of Nevada, which fell by -0.2%. For all of 2007 Idaho's nonfarm employment growth was 2.6%, which was faster than all our neighboring states except Utah and Wyoming, who were tied for fastest growing in 2007 at 3.9%. Only two other states (Louisiana at 3.6% and Texas at 2.9%) exceeded Idaho's employment growth in 2007.

Idaho's struggling construction sector is one of the key reasons behind the recent employment growth slowdown, with a February 2008 year-over-year decline of -4.6%. Many states saw sharper construction employment declines in February, but among surrounding states only Oregon (-5.3%) and Nevada (-7.5%) performed worse than Idaho.

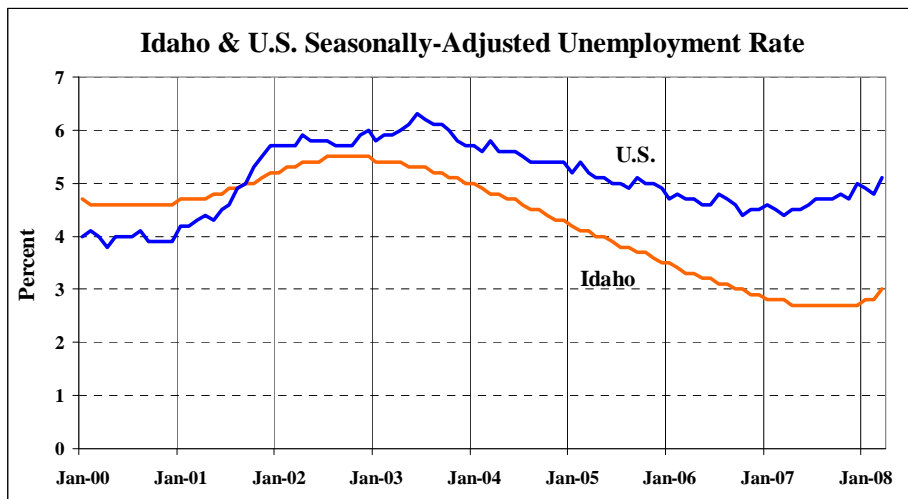
Manufacturing employment is another source of weakness for Idaho, with

February down -5.0% from a year earlier. The only states that saw a larger percentage decline in manufacturing were Florida (-5.5%), Michigan (-6.1%) and New Mexico (-6.6%). The dominant source of Idaho's manufacturing employment decline was the layoff of approximately 1,100 workers announced by Micron last summer. Their more recent announcement that the Boise site will be upgraded to the newer 300mm wafer process should at the very least stop the decline.

The banking sector has certainly been the focus of much attention, and here Idaho fares reasonably well. Based on data supplied by the Idaho Department of Finance, mortgage delinquencies in 2007 were 3.9% of total mortgages, compared to 6.3% for the nation. Foreclosure starts in Idaho for 2007 were 1.5% of all mortgages, compared to 2.8% of all mortgages for the nation.

The subprime component of the mortgage market is garnering much national and international attention and yes, it is also a part of Idaho's housing finance sector. According to data published by the Federal Reserve Bank of New York, 2.2% of Idaho housing units have subprime loans, compared with 2.9% for the nation. Our neighbor Nevada has 4.8%, Florida has 4.4%, and California has 4.1% of its housing units in subprime mortgages. 5.5% of Idaho subprime mortgages are in foreclosure (as of December 2007), versus 7.7% for the nation. Not surprisingly, Florida has 11.5% of its subprime loans in foreclosure, California has 10.1%, and Nevada has 8.3%.

Looking ahead, 66.9% of Idaho subprime mortgages are adjustable rate (ARM). Of these, 41.5% are scheduled to reset in 2008. Don't be surprised to hear that foreclosure activity increases in the months ahead.



**Note:** Beginning July 2008 the *Idaho Outlook* will only be available in pdf format on the Division of Financial Management's website.

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## General Fund Update

As of March 31, 2008

<u>Revenue Source</u>	<u>\$ Millions</u>		
	FY 2008 Executive Estimate <sup>3</sup>	DFM Predicted to Date	Actual Accrued to Date
Individual Income Tax	1,378.9	880.4	857.9
Corporate Income Tax	169.4	98.3	100.2
Sales Tax	1,166.0	876.8	870.6
Product Taxes <sup>1</sup>	26.8	20.5	20.4
Miscellaneous	120.9	69.7	74.5
<b>TOTAL GENERAL FUND<sup>2</sup></b>	<b>2,862.0</b>	<b>1,945.7</b>	<b>1,923.6</b>

<sup>1</sup> Product Taxes include beer, wine, liquor, tobacco and cigarette taxes  
<sup>2</sup> May not total due to rounding  
<sup>3</sup> Revised Estimate as of February 2008

General Fund revenue was \$8.3 million lower than expected in March, and now stands \$22.1 million below the amount predicted for the fiscal year to date. These results are based on the updated General Fund revenue forecast that was produced in February 2008. March's shortfall was due to a combination of weakness in the individual income tax, the sales tax, and miscellaneous revenue. These three areas of weakness were partially offset by modest gains in the corporate income tax. The product tax category was on target.

Individual income tax revenue was \$3.7 million lower than expected in March. Filing collections were \$6.2 million higher than the month's target, and now stand \$3.6 million above the amount expected for the fiscal year to date. Withholding collections were \$2.8 million lower than expected and now stand \$0.2 million below the target for

the fiscal year to date. Refunds were \$5.8 million higher than expected for the month and are now \$24 million low on a fiscal year-to-date basis. This brings the overall individual income tax fiscal year-to-date shortfall to \$22.5 million. In recent years the acceleration in the timing of refund processing has produced a similar pattern of higher-than-expected refunds early in the filing season (January - March), followed by lower-than-expected refunds later in the filing season (April - June). This appears to be continuing and should shrink the refund gap as the fiscal year-end approaches.

Corporate income tax revenue was \$1.5 million ahead of expectations in March and now stands \$1.8 million ahead on a fiscal year-to-date basis.

Sales tax revenue was \$2.0 million lower than expected in March and now stands \$6.2 million below the fiscal

year-to-date predicted amount. March was a small-scale repeat of what happened in February, with gross collections expected to grow 1.6% but actually falling -0.5% (February was expected to grow 1.7% but actually came in at -3.7%). The spread is closer on a fiscal year-to-date basis, with growth of 1.2% expected, but actual growth achieving a more modest 0.5%. The growth forecast for the full fiscal year is 0.8% (this is on a normalized basis to remove the effect of the rate increase partway through FY 2007).

Product taxes were on target in March and remain \$0.1 million lower than expected on a year-to-date basis. Miscellaneous revenues were \$4.2 million lower than expected in March due to weakness in the insurance premium tax. Overall the miscellaneous category is \$4.9 million ahead of its target for the fiscal year to date.